

Governor's Transportation Vision 21 Task Force
Revenue Consultant Summary Report to Task Force

Suggested Revenue Plan



March 22, 2001

I. PREFACE

The role of the Revenue Consultant to the Governor's Transportation Vision 21 Task Force is to develop revenue-related information that will allow the Task Force to develop a fiscally balanced, long-range multimodal transportation plan for Arizona. The development of a preferred revenue plan requires that the following items are identified and addressed:

- projected revenues for transportation from existing sources;
- potential alternative revenue sources and issues associated with them;
- candidate sources for alternative revenue packages; and
- impacts of alternative revenue packages.

The Task Force has been briefed on all the above issues through a series of written detailed progress reports. This report, Suggested Revenue Plan, documents critical background material and identifies a proposed revenue plan that is a product of this cooperative assessment.

ANALYSIS APPROACH

The analysis approach used in the revenue assessment is summarized in the following statements:

- In general, future revenues were estimated using **a conservative approach**. This is to minimize the possibility of less revenue being available than projected.
- Future revenue projections are in **constant 2000 dollars**, in order to consider the impact of inflation in the comparison of needs and revenues.
- Future Base Case revenue projections reflect anticipated changes in activity (i.e. population growth, changes in fuel efficiency, etc.) and **assume no changes in current taxes or fees**.
- Future Base Case revenue projections **include Federal, regional, State and local revenues** available for transportation.

- *conservative forecasting approach*
- *revenues are in constant 2000 dollars*
- *no increases in current tax/fee structure assumed for Base Case revenues*
- *Federal, regional, State and local sources of revenue included in analysis*

BASE CASE REVENUES

Table I-1 presents a summary of projected revenue in constant 2000 dollars for the 20-year period from Fiscal Year (FY) 2001 to FY 2020.

The estimate of \$41.0 billion reflects the anticipated impact of the recent alternative fuel vehicle legislation as well as the payment of debt service requirements.

Total revenue available for transportation over the next 20 years is estimated at \$41.0 billion (in constant 2000 dollars)

The modes addressed in the Needs Analysis include roadway, bus and rail, aviation, non-motorized and multimodal. In general, non-motorized and multimodal improvements are funded through the same sources as roadway projects. Therefore, the five Needs Analysis categories equate to three Revenue Analysis categories: roadway (including non-motorized and multimodal); transit (bus and rail); and aviation.

Table I-1 Summary of Base Case Transportation Revenues

Future Revenue Estimates (millions of constant 2000 dollars) after Debt Service Requirements Met					
Mode	FY 2001-2005	FY 2006-2010	FY 2011-2015	FY 2016-2020	Total
Roadway	\$7,955.1	\$8,432.6	\$8,580.1	\$8,816.0	\$33,783.8
Transit	\$1,133.3	\$1,050.9	\$986.8	\$935.1	\$4,106.1
Aviation	\$846.7	\$795.5	\$771.0	\$751.1	\$3,164.3
Total	\$9,935.1	\$10,279.0	\$10,337.9	\$10,502.3	\$41,054.3

REVENUE TARGET

The current estimate of total transportation needs developed by the Needs Consultant is \$61.3 billion (in constant 2000 dollars) for the period FY 2001 through FY 2020. For the purposes of this analysis the needs are assumed to be evenly distributed across the four five-year periods. A comparison of needs and revenues by mode by time period is depicted in Table I-2.

The 20-year needs estimate is \$61.3 billion, compared to \$41.0 billion in revenue for the same period from existing sources.

There is an anticipated \$20.3 billion difference between needs and revenues. Therefore, in order to meet the needs reflected in the \$61.3 billion estimate, an additional \$20.3 billion in revenue is required.

Table I-2 Comparison of Needs and Revenues

Needs and Revenue Comparison (millions of constant 2000 dollars)						
Sources	Use	FY 2001-2005	FY 2006-2010	FY 2011-2015	FY 2016-2020	Total
Revenue	Roadway	\$7,955.1	\$8,432.6	\$8,580.1	\$8,816.0	\$33,783.8
From	Transit	\$1,133.3	\$1,050.9	\$986.8	\$935.1	\$4,106.1
Existing	Aviation	\$846.7	\$795.5	\$771.0	\$751.1	\$3,164.3
Sources	Total Revenue	\$9,935.1	\$10,279.0	\$10,337.9	\$10,502.3	\$41,054.3
Needs	Roadway	\$12,601.0	\$12,601.0	\$12,601.0	\$12,601.0	\$50,404.0
	Transit	\$1,705.0	\$1,705.0	\$1,705.0	\$1,705.0	\$6,820.0
	Aviation	\$1,027.8	\$1,027.8	\$1,027.8	\$1,027.8	\$4,111.0
	Total Needs	\$15,333.8	\$15,333.8	\$15,333.8	\$15,333.8	\$61,335.0
Additional	Roadway	\$4,645.9	\$4,168.4	\$4,020.9	\$3,785.0	\$16,620.2
Revenue	Transit	\$571.7	\$654.1	\$718.2	\$769.9	\$2,713.9
Required to	Aviation	\$181.0	\$232.3	\$256.8	\$276.6	\$946.7
Meet Needs	Total Add't Revenue Req'd	\$5,398.6	\$5,054.8	\$4,995.9	\$4,831.4	\$20,280.7

The Task Force proposed that all of the Flight Property Tax revenue should be deposited in the State Aviation Fund. Currently, only 50% of this revenue is dedicated to aviation use. In constant 2000 dollars, the 50% share equates to approximately \$126 million over 20 years. This action would reduce the \$20.28 billion revenue target to \$20.15 billion.

II. SUGGESTED REVENUE PLAN

BACKGROUND

More than 25 potential revenue sources were reviewed to identify the most appropriate elements for an overall revenue plan. Three emerged as the most appropriate sources for a \$20 billion revenue package – gas tax increase, use fuel tax increase and a statewide sales tax dedicated for transportation improvements.

The use of fuel tax revenues is restricted. Revenues from these Highway User Revenue Fund (HURF) sources can only be used for roadway needs. Sales tax revenue, however, is unrestricted and can be used for any transportation need – transit, aviation or roadway.

Fuel taxes are user-based taxes, with the amount of the tax paid related to vehicle use. Sales taxes are not direct user taxes, but do reflect the linkage between transportation infrastructure or service and the benefits it provides to the overall economy of an area. With ever increasing needs and costs, there has been the need to supplement, but not replace, vehicle-related user fees. Although the gas tax remains the backbone of roadway revenue, changes in fuel efficiency as well as alternative fuel types are eroding the effectiveness of this revenue source.

The Task Force favored a balanced approach, although many believe the sales tax should be emphasized. With this guideline, a suggested revenue plan has been developed. As indicated in Table II-1, the principal components are phased-in gas and use fuel tax increases in addition to a phased-in statewide sales tax increase and a new statewide development fee for new residential and commercial developments.

The revenue target is approximately \$20 billion (in constant 2000 dollars) over the next 20 years. To reflect the earliest that any tax or fee increase could be implemented, the 20-year period has been shifted forward one year to FY 2002-2021.

Table II-1 Suggested Revenue Plan

Use	Source	Action	Estimated Revenue By Time Period				20-Year
			FY2002-2006	FY2007-2011	FY 2012-2016	FY 2017-2021	Yield
Restricted	Gas Tax Increase	\$0.05 in FY 2002	\$561.6	\$556.5	\$534.6	\$519.7	\$2,172.4
		additional \$0.04 in FY 2005	\$179.6	\$445.2	\$427.7	\$415.7	\$1,468.2
		additional \$0.02 in FY 2010		\$87.9	\$213.8	\$207.9	\$509.6
		additional \$0.02 in FY 2015			\$84.6	\$207.9	\$292.5
		Subtotal	\$741.2	\$1,089.7	\$1,260.7	\$1,351.1	\$4,442.7
	Use Fuel Tax Increase	\$0.05 in FY 2002	\$153.1	\$154.2	\$148.5	\$144.2	\$600.1
		additional \$0.04 in FY 2005	\$49.2	\$123.4	\$118.8	\$115.4	\$406.8
		additional \$0.02 in FY 2010		\$24.4	\$59.4	\$57.7	\$141.5
		additional \$0.02 in FY 2015			\$23.5	\$57.7	\$81.2
		Subtotal	\$202.4	\$302.1	\$350.2	\$375.0	\$1,229.6
	Subtotal Restricted to Roadway Use		\$943.6	\$1,391.8	\$1,610.8	\$1,726.1	\$5,672.3
Unrestricted	Sales Tax Increase	0.25% in FY 2002	\$1,006.9	\$1,153.8	\$1,279.5	\$1,435.7	\$4,875.9
		additional 0.50% in FY 2006	\$426.5	\$2,307.7	\$2,559.0	\$2,871.4	\$8,164.6
		Subtotal	\$1,433.4	\$3,461.5	\$3,838.5	\$4,307.1	\$13,040.5
	Development Fees	beginning in FY 2003	\$420.1	\$456.8	\$378.5	\$317.1	\$1,572.6
	Subtotal Unrestricted Use		\$1,853.5	\$3,918.3	\$4,217.0	\$4,624.3	\$14,613.1
Total			\$2,797.1	\$5,310.1	\$5,827.8	\$6,350.4	\$20,285.4

FUEL TAXES

The existing per gallon state gas and use fuel tax in Arizona are \$0.18 and \$0.26, respectively. Based on a survey of state and local fuel tax rates in effect in January 2000, Arizona ranked 40th in the nation in gas taxes and 10th in use fuel taxes. Other states are reviewing their transportation revenue outlook and adjusting fuel taxes accordingly. However, assuming no changes by other states, the initial \$0.05 increase suggested for FY 2002 would result in Arizona moving up in the rankings to 19th and 1st for gas and use fuel taxes, respectively. It is noted that in January 2000 Nevada ranked first in state and local gas taxes with \$0.33 and Pennsylvania ranked first in state and local diesel taxes with \$0.308 per gallon.

It is most likely that many states will be making adjustments between FY 2005 and FY 2015 when additional increases are suggested. Therefore, no comparison is made on how Arizona would rank that far in the future.

STATEWIDE SALES TAX

The statewide sales tax surcharge is proposed to be phased-in, beginning with an 0.25% surcharge for transportation in FY 2002. An additional 0.5% surcharge is proposed in FY 2006 to coincide with the expiration of the Maricopa County Regional Area Road Fund (RARF) tax.

DEVELOPMENT FEES

The suggested revenue plan also includes a statewide development fee. The revenue potential for such a fee was estimated using new housing starts. It was estimated that the equivalent of a \$1,000 fee for each new residential development would generate on average \$87.2 million per year. A lesser fee applied to both residential and commercial developments could be used to yield equivalent revenue levels. It is noted that the legal framework for a statewide development fee has to be developed.

OTHER CONSIDERATIONS

The forecasts of both needs and revenues are based on many assumptions, including population increases, vehicle usage, fuel consumption, inflation rates, disposable income, and other related factors. The long-range 20-year planning horizon adds another dimension to the forecasts. As a result, the suggested revenue plan should be viewed as a blueprint for moving into the future, with adaptations necessary if underlying assumptions change.

There are other alternative revenue sources that could be considered if it becomes necessary to supplement the revenue generated by the primary revenue sources (i.e. fuel tax increases and the statewide sales tax surcharge). Examples include:

- **alternative fuel tax:** the effectiveness of the gas tax may be eroded by the switch to alternative fuels, therefore consideration should be given to taxing alternative fuel sources.
- **sales tax on automobiles:** Arizona has a sales tax on automobiles and the revenue is deposited in the State General Fund. All or a portion of this revenue source could be dedicated to transportation. This would not be a tax increase, but the reallocation of revenues from unspecified use to dedicated transportation use.
- **parking tax:** other municipalities have added a parking tax with the proceeds dedicated to transportation. This source not only generates revenue, but also is an incentive for considering ridesharing or transit usage.
- **public/private partnerships:** there are mechanisms for financing specific projects that involve public/private partnerships. Toll roads are one example. Opportunities for public/private partnerships should be explored on a case-by-case basis.
- **miscellaneous:** examples of other actions raised by the Task Force include a tax on all property transfers and fuel tax indexing.

KEY IMPACTS

Key impacts of the suggested revenue plan will be the increased tax burden to operate vehicles (that is, the additional amount spent in fuel taxes) and the additional sales tax burden. For the purpose of this assessment, a two-car household with a \$40,000 household income is used. It is assumed that 25%, or \$10,000, is spent on taxable items.

Table II-2 summarizes the impact of each individual tax action as well as the total annual impact by time period. The initial \$0.05 increase in state gas tax will result in \$65 more in annual state gas tax payments. The 0.75% sales tax surcharge is expected to have a household impact of \$75 annually.

Table II-2 Key Impacts of Suggested Revenue Plan

Action	Gas Tax	Sales Tax	Total
\$0.05 increase in FY 2002	\$65		\$65
\$0.04 increase in FY 2005	\$52		\$52
0.25% surcharge in FY 2002		\$25	\$25
0.50% surcharge in FY 2006 *		\$50	\$50
Subtotal Annual Impact By End of FY 2002-2006	\$117	\$75	\$192
\$0.02 increase in FY 2010	\$26		\$26
Subtotal Annual Impact By End of FY 2007-2011	\$26	\$0	\$26
\$0.02 increase in FY 2015	\$26		\$26
Subtotal Annual Impact By End of FY 2012-2016	\$26	\$0	\$26
Total Final Annual Impact	\$169	\$75	\$244
* not an increase for Maricopa County since this replaces expired RARF tax Note 1: Gas tax impacts assume two cars, each driven on average 12,000 miles per year with average of 18.5 mpg Note 2: Impacts are for household with \$40,000 average income, \$10,000 spent on taxable items			